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1 Introduction

Competition and cooperation (collaboration) provide not only alternative but also simultaneous paths of business promotion.

Until recently, non-cooperative strategies prevailed. Collaborative approach has been considered second best in cases when subordination to a hierarchical structure proved to be impractical or when cooperative form had been mandated by the authorities.

Last decades were marked by the growth of multinational oligopolies as the most effective way of enhancing business. Other company divisions or new business establishments were mostly preferred to a joint arrangement. However, profileration of cooperative business ventures made it possible to overcome former reluctance.

Cooperative business strategies expanded particularly in the 1980's. Within a decade, a business scene was shaped in a completely different pattern. Horizontal organization of business activities expanded at a pace unprecedented and incomparable with those years ago.

Not only complementary firms, but also rival firms found it necessary to collaborate in order to join a soaring "critical mass" of research, engineering, marketing potential and capital.

The surprising surge of cooperative business strategies marks the next stage of international division of work, an ongoing globalization of capital and production.

Protagonists of that overwhelming development are members of the "Triade,"[1] i.e. the USA, Japan, and the European Community (EC).

However, there are further approaches, for instance between the USA and Canada, Japan and neighboring countries of Southeast Asia, EC countries and Scandinavian or Central European countries (Austria, Switzerland).

Now, former Communist Europe is on the verge of democratic politics and market economy. The space for internationalization is getting substantially enlarged.

It is IIASA's unique mission to look for East–West strategies concerning urgent needs of member countries.

In the aftermath of principal, political and economic changes in many Central and Eastern European countries, effective international, cooperative business strategies made their headway among the current priorities.

2 Towards a new socioeconomic setting in international relations

The political upheavals in Eastern Europe in 1989/1990 accelerate the process of "economic transition."[2] Countries, which abode by centralized economy discontinue the past development, try to recover a market economy and reenter the world market.

[1] The term "Triade" appeared first in some Japanese studies, from where it was spread into other professional use.

[2] Term coined first by the OECD.

Associated with the paramount political changes, legal and administrative provisions and economic rules open an expanding space for business cooperation between Western and Eastern firms. The rapid pace of economic transition renders many authoritative ideas, conceptual theories and data obsolete.

National economic policies adopt similar business values and arguments for decision taking, the interfaces between firms open for mutual fluxes of research, development, experimentation, manufacturing, selling or capital ventures. The whole aggregate of West–East business relations should be subject of a far-reaching reappraisal. The future development will be in many regards dissimilar to that achieved in the past.

The "new thinking" in international affairs has a growing impact on West–East policymaking. It is associated with a concern for the others part interests and for a higher global sustainability and prosperity, endowing the business cooperation with new responsibilities and an advanced creative potential.

Western governments, business communities, civic movements show an increased understanding for East European market recovery and are offering some advantages, like low interest credits, custom advantages, management training, study visits and scholarships.

The effect on business cooperation increased on both sides. East European countries are inclined to property guarantees, profit repatriation, tax alleviation, infrastructure development, etc. International business cooperation has acquired a high priority.

Since 1989 the Soviet Union, Poland, Hungary, Czechoslovakia, Bulgaria, Romania has adopted a breakthrough in legal provisions on private property, joint stock companies, joint ventures and similar issues favoring international business cooperations with Western firms.

Many of those legislations were already amended in order to provide still more liberal prerequisites for international business. There is a tendency to gradually attain a leverage of the competitive environment equal to Western habits.

In a foreseeable time of some 5-10 years, general business environment in the former group of East European countries might become indiscernable from the West.

3 The framework of cooperative business strategies

The term business cooperation-collaboration comprises implicitly a mutuality of spirit and practical effort. Contrary to the simple ownership sharing, which might imply a joint exploitation of resources, business cooperation involves complementarity and synergy of shared entrepreneurialship.

Unlike genuinely intellectual (scientific, educational, informative) technological and productional (manufacturing) cooperation, the term of "business cooperation" is placed where there is a profit motive, cost-benefit deliberation and return on capital invested (or on output volume) objective.

It is uneasy to provide an accurate picture of the business cooperation among the exorbitant variations of the real business process. However, several conventional samples may help to deliminate the basic content:

- industrial agreement on shared research, experimentation, marketing, post-sales servicing, etc;
- industrial co-production (co-manufacturing), such as delimitation of products/services; specialized parts, moduls or aggregated deliveries of operating systems and appertaining software, product accessories, complementary finished products, etc.;
- licensing;
- franchising;

- research, marketing or manufacturing or financing association (consortium), pool or network;
- joint enterprises.

Regardless of the substrate, the item falls under the term of business cooperation, if there is an entreprenereurial objective, cost-benefit concern, common account and profit sharing.

4 Dynamism of contemporary cooperative strategies

The contemporary growth of cooperative strategies signals a radical shift in global business. Their number increased spectacularly in the first half if the 1980's and the surge continued so far. Figure 1 demonstrates that in the first 5 years of the 1980s, cooperative agreements between the USA and the EC increased almost 20 times, between the USA and Japan 8 times and between Japan and the EC 4 times.

Leading countries in Europe by number of cooperative agreements was France (taken further for 100%), United Kingdom (78%), Federal Republic of Germany (59%) and Italy (47%).

Present options for business cooperation expand and offer divers priorities. Some of them could be exclusively national and bilateral. However, other might weigh multinational interest and draw a synergetic effect from a composed participation.

In recent years, joint ventures are often taken as a representative cooperative strategy. In particular, the economic and business approach between East and West tends to recapitulate all cooperative strategies in terms of joint ventures. Other cooperative options may be obliterated by this predominance.

While potential benefits of business cooperation have long been recognized and sought for, the reverse drawbacks are also to be taken into account. Joint forms of business are not that much extended as several saying suggest.

Several outer conditions qualify for the proclivity to interfirm business cooperation. In the USA, the firms prefer to operate autonomously.

In the decade of 1964–1975 the number of joint ventures between American firms was estimated at some 25 000 and the growth in the decade at approximately +10%.[3] In the next decade, due to a modest growth, the figure might lie around 35 000.[4]

Firms located in (Western) Europe show a more extensive propensity to joint business. Socioeconomic and cultural differences of European countries support the tendency to involve a domestic partner instead of establishing a foreign affiliation. In Japan the differences seem to be that much elevated that most foreign firms decide to ask some Japanese partner for collaboration.

Foreign enterprises located in the USA selected joint venture for 34%, the corresponding figure for firms located in (Western) Europe lies around 43% and in Japan 90%.[5]

In compliance to similar estimation one might extrapolate that there are in order of magnitude, some 100 000 joint ventures in operation in the highly industrialized and newly industrialized countries with the market economy.

5 Rationales for cooperative arrangements

Cooperative strategies are focused in the long run on a favorable benefit–cost balance. The combined capital, production factors, and creative efforts of the partners are expected to add up to the value output, and improve the competitive potential.

[3]From a sample of 110 American cooperations extrapolated by Young, G.R. Bradford, S.: Joint Venture: Planning and Action, New York, Financial. Executives Research Foundation, 1077, p. 5.

[4]Another extrapolation of the growth trend. Source: same as previous footnote.

[5]Vernon, R.: Storm Over Multinationals, Cambridge (Mass.), Harvard University Press 1977, p. 35. Reprinted and completed by other deliberations in Geringe, J.M.: Joint Venture Partner Selection, New York, Quorum 1988, p. 5.

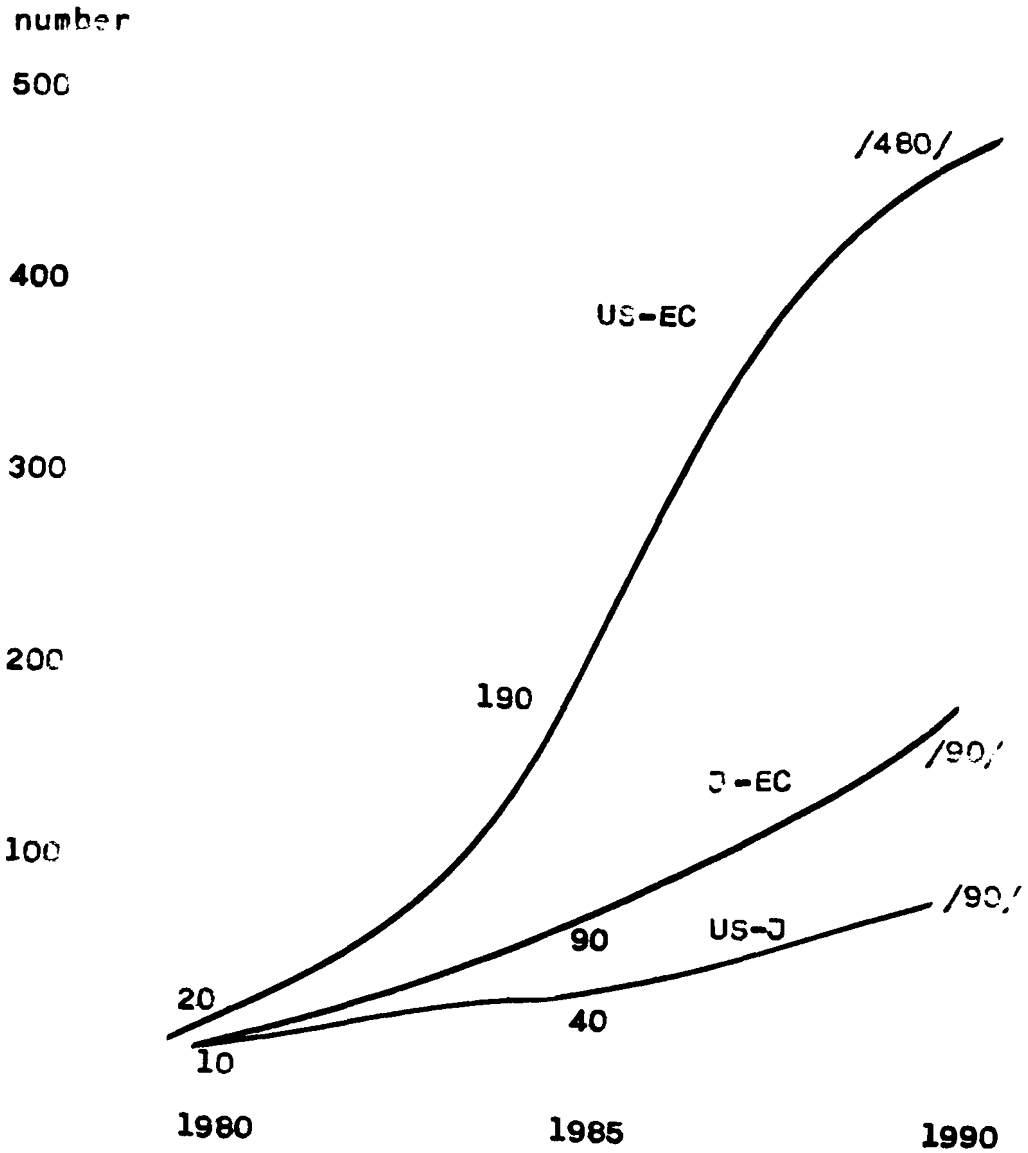


Figure 1: Growth of international cooperative business agreements

US: United States, J: Japan, EC: European Community

Source: Herget, M. Morris, D.: Trends in International Collaborative Agreements, in: Contractor, F.J. Lorange, P.(ed.): Cooperative Strategies in International Business, Lexington, Lexington Books 1988, p.101. Ibid., p. 103. Estimates by IIASA

The substantial reasons for a cooperative venture may vastly differ from case to case. In general, they are aimed at a fostering of the partners' assets, reduction of operational cost, overcoming of divers obstacles, elimination of risks.

A variety of scholars speculated as to what were the driving forces behind. According to research results obtained from comparative analysis of current international studies, most occurring factors seem to be:

- acceleration of integrative changes in the global economy entailing subsequently expanding requirements on science, engineering and capital—the so called "critical mass" of creative forces and capital funds—beyond the scope of single firms;
- attraction of the economy resulting from enlarged scales/scopes of output (products/services);
- opening of new markets associated with the need for an experienced partner;
- excess capacities (of capital, equipment, research, development, experimentation, etc.) remitted by an almost permanent technological, organizational and/or economic change;
- penetration of modular, aggregate, complementary concept into design and manufacturing, thus allowing an extensive horizontal ("flat") division of the production and responsibilities;
- growing integrative potential of informatics and telecommunication, and of resourcing and logistics, and bling a holistic approach to the deeply divided production and responsibilities;
- emergence of global products/services and of production/market globalization;
- avoiding or overcoming monopolies or administratively mandated obstacles;
- increase of hazards associated with complex products and projects and flexible risk pooling.

The rationales surveyed above, do not refer to business options only. They testify of a deep-rooted shift in the economic tendencies of the present global change.

They provide answers to many up-to-date questions which reflect the ongoing transition from the old depleted industrialism to a new and prospective post-industrialism.

A variety of contemporary researchers in economic and business cooperation point out the growing impact of cooperative cognitive procedures and decision making. The cooperative tendency is being associated with a shift to a changed set of prosperity values.[6]

In some European countries it is generally reflected as a "social market economy"—as in West Germany—or "socioecological market economy"—as in Austria. An elevated balance of competition and cooperation is being endeavored.

6 Briefly on theories of cooperative business behavior

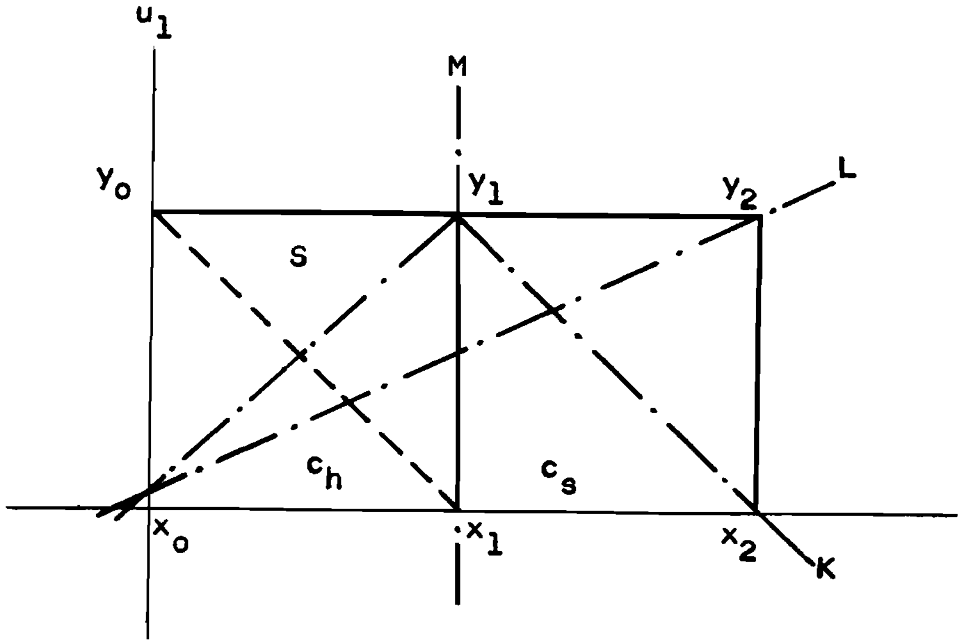
Much was studied and written on competitive business behavior. However, co-operative (collaborative) approaches are a rather recent theoretical achievement.

The theories of negotiative procedures—in diplomacy, foreign affairs, economy and business—never precluded compromises and coalitions. Most were based on variations of game theories.

It was usual to enter the negotiation with a fixed interest and a limited tolerance. The framework was delineated in advance and offered a finite set of opportunities or contingencies.

[6] For instance, A. Etzioni pleads for a reshaping of the classical and neoclassical paradigm of economic prosperity which he calls a "We" instead of "I" paradigm. Etzioni, A.: The Moral Dimension. Toward a New Economica, New York, The Free Press 1988.

Figure 2:



u = utilities (for Agent 1 and 2)
c = currency (hard and soft)
S = vector of feasable options (S/x_1, x_2, y_1, y_2)
K = straight egalitarian choice
L = relative egalitarian choice
M = wishful choice (in favor of Agent 1)

As an outcome of changed political and economic setting—and also under the impact of the scientific and technological progress—a new intellectual paradigm developed, stimulating a looking for more flexible problem solving.[7]

After several landmark studies, theoretical arguments were supplied for an expanded option and refinement of dual or collective bargaining, negotiation, decision taking.[8]

Theoretical foundation of cooperative business behavior is mostly axiomatic. There might be grounded complaints against such an approach, but most scholars prefer it as the feasible introduction to cooperative thinking and operating.

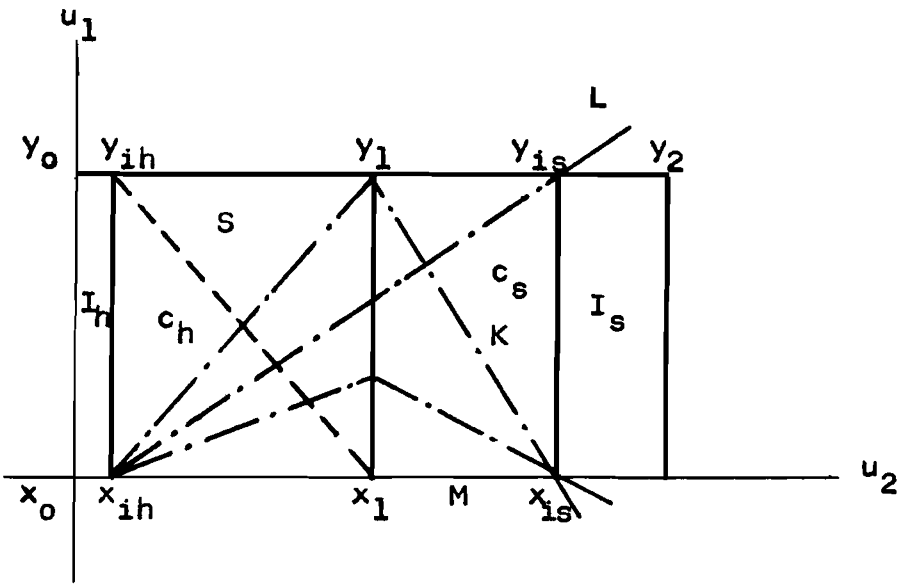
Let us provide an example of bargaining between two agents (for instance company co-owner). Agent A_1 and Agent A_2 would share gained company incomes. While A_1 is interested in hard currency only, A_2 in both hard and soft. Let us presume that the company has earned half of its income in hard and the other half in soft currencies. A single egalitarian choice would divide the income simply in half. The satisfaction of A_1 would be full. However, A_2 would remain partly dissatisfied. A relative egalitarian option would look for a solution as demonstrated on the Figure 2: A feasible solution could be found in the shaded area. Let us chose for instance for $A_1 = 2/3h + 1/3s$ and vice versa for $A_2 = 1/3h + 2/3s$.

Sometimes part of the income turns out not to be divisible (for instance is to be reinvested). For a case when indivisibles are not equal for both currencies, the feasibility of (axiomatic) choice might be continued on Figure 3: However, in realistic cases, other options might be adopted.

[7] Often under the headline of the "new thinking", first used in international affaires but gradually applied in a broader sense.

[8] In particular San, A.: Collective Choice (1970).

Figure 3:



I = indivisibles (I_h/x_o, x_{ih}, y_o, y_{ih} — for hard currency and I_s/x_{is}, x_2, y_{is}, y_2 — for soft currency)
K = straight egalitarian choice
L = relative egalitarian choice
M = non egalitarian choice

For instance one bargaining partner might prove to be a stronger competitor, some compromise motivated by outer deliberations could be embarked at, etc.

The eventual choice could be poised for future benefits or risk for concerning one of the Agents or both.[9]

The options might develop along a non-axiomatic trajectory and adopt an intricate form.

7 Growth and change of joint capital business

On the global scene, it is Europe that seems to demonstrate the highest propensity to cooperative business relations. In the USA, a higher level of monopolistic domination still overlaps from the past. The share of cooperative arrangements seem to be rather lower. In Japan, stable cooperative agreements represent a part of the indigenous industrial culture.

In countries with a central planning, most of which are now entering a process of transition to the market economy, particularly in the CMEA countries, a variation of joint business was being introduced under the headline of the "direct relations", which denotates divers cooperative and coproductive agreements associated with a joint capital investment and profit sharing. There is a general opinion that the growth of cooperative arrangements vastly outnumbers the pace of growth of the business as a whole. But "the data remain fragmented and incomplete, making it hard to verify the overall pattern of cooperative activities."[10]

Not only the increase in number of joint business, but also a shift of its formative features discloses that the cooperative strategies commenced a new path of development and that they simultaneously assumed new featuring qualities. In order to point out the novelty of cooperative business efforts, the following comparison might be helpful in justifying the above conclusion:

old	new
a large firm subordinates a small one	firms of comparable size cooperate
a foreign firm acquires a domestic one	firms with international reach integrate their operations
firms looks for a single utilitarian nexus	partnership involves many stages at the the value-added chain (marketing, R&D, sourcing, manufacture, sales, etc.)
firms complementary in scope	firms with rather similar potentials
firms restricted to a local market	firms with regional or global range
cooperative agreements without joint	capital holding and joint ventures

Another significant change of the joint venture pattern relates to the question: "What is a joint venture good for?" Policy makers in governmental agencies and in business communities begin to look at the joint ventures also as at appropriate tools for better problem-solving in many areas of economy structural change and promotion.

Joint business strategies are applied in many less usual or so far rare opportunities, like

- natural resources and extraction investment pooling,
- agricultural production, supply and sales cooperatives and coproduction with the food industry;
- R&D or R&E cooperative consortia, programs and projects;

[9] An elaborated set of options is offered in Moulin. H.: Axioms of Co-operative Decision Making, Econometric Society Monographs, Cambridge, (Mass.), Cambridge University Press 1988.)

[10] Contractor, F.J. Lorange, P.: Cooperative Strategies in International Business, Lexington, Lexington Books 1988, p. 4.

- industrial sourcing;
- industrial or/and service firms networking;
- CIM or CAI and communication services;
- infrastructure (financing, training, consulting, communication, resourcing, etc.)
- technology transfer facilities (center, parcs, zones) and agreements,
- environment protection agreements,
- information, education and training agreements,
- self-service agreements (where the market does not meet the needs, in particular social, cultural and environmental ones), etc.

Far from being complete, the survey of less usual examples provides another insight into the changed structure of cooperative business (in the last case also non-business) arrangements.

From the point of view of involved capital and remuneration, the typology also displays a large scope of opportunities:

Type of cooperative agreement	Extent of interdependence (inter-firm)	Prevailing compensation
Countertrade and buy back	non existent	goods for goods
Start-up and implementation	non existent	lump-sum due, fee
Consulting and training	non existent	lump-sum due, fee
Patent or discovery licensing	low or modest	royalty (as % of turnover)
Franchising	low or modest	royalty or mark-up
Technology or know-how licensing	modest or high	lump-sum due, fee or royalty
Sales and post sales services	modest or high	lump-sum due, fee or royalty
Research, development or experiment	high	cost sharing and expected profit
Coproduction (comanufacturing)	high	revenue
Joint venture	very high	dividend

To provide a more complete image, it should be noted, that not only business cooperation, but also non-business arrangements in solving social problems gain momentum. The so-called social "self-service" covers the gaps left by the market in servicing socially sensitive needs.[11]

8 A recent increase in East–West joint ventures

Joint Capital agreements between Eastern and Western countries represent a sensitive issue of the whole diversity of cooperative business.

Studies of East–West joint ventures started already in the 1970, however, their object remained limited to Polish and Hungarian reality and only a very limited number of specially approved cases in other CMEA countries.

[11] In some developed countries, the share of self-service - if put together got close to 5% of the GDP.

Table 1: Joint ventures in selected CMEA countries (as of April 1,1990)

Joint ventures in CMEA countries	
Number of registered joint ventures	3 600
by country	
Soviet Union	1 500
Poland	1 100
Hungary	830
CSFR	100
Bulgaria	70
by economic sector	
primary	3 - 5%
secondary	35 - 55%
tertiary	40 - 60%
by operating status	
in operating	30 - 40%

In 1989 other CMEA countries joined the trend for liberalization of bilateral or multilateral capital ventures.

In the fall 1989, at an international conference on joint ventures in Varna (Bulgaria), IIASA scholars presented their findings based on some 600 joint ventures cases in the CMEA countries.[12] In the first quarter of 1990, only one half of a year later, the number of joint ventures soared to some 3 500, e. g. 5,8 times more. See Table 1.

ad Poland: Of which some 700 "Polonia" joint ventures (sponsored by Polish immigrants).
ad primary sector: Food industry excluded.
ad operating status: As the applications for the registrations rapidly soar, the difference logically widens.

Trends in joint-ventures-build-ups demonstrate a sharp difference among countries. It is first of all the Soviet Union which is leading by number of authorized joint ventures. However, computed as to the relations of its GDP, the share remains low. Then Poland and Hungary, countries with the longest tradition of joint ventures, follow in the row. Czechoslovakia and Bulgaria preserve rather cautious approach. The number of joint ventures in the GDR might be similar as in the CSFR. (Until recently, there was no joint venture legislation in the country and cooperative decisions were take case by case.) The number of joint ventures in Romania is negligible. See Figure 4.

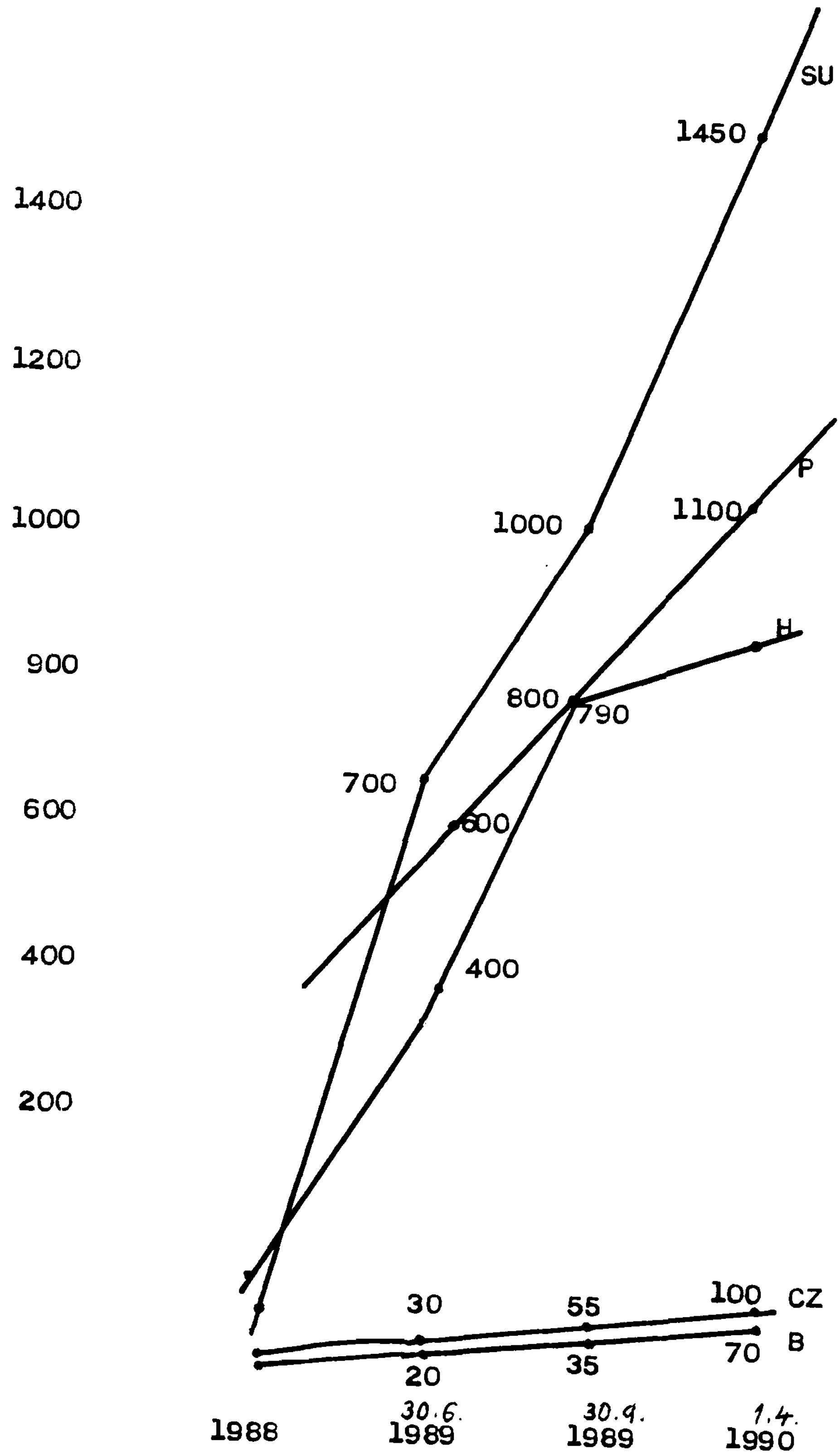
9 Joint venture opportunities and drawbacks

East–West joint ventures occur across unequal socioeconomic patterns. The expectation of the partners inescapably must differ. If generalized, the expectations can be brought in order as follows:

from the part of the Western investor	from the part of the Eastern producer
- market access	- hard currency funding
- profit accumulation	- technology transfer (modernization)
- cheap resourcing	- attractive trademark
	- management skills

[12] E. Razvigorova (ed.): Executive summary of the Seminar "Promises and Problems of East–West Joint Ventures," Golden Sands Laxenburg, IIASA 1989.

Figure 4: Joint venture growth in 1988–1990 (as of April 1, 1990)
Source: East–West joint ventures news (issue 1–4) and IIASA joint venture data base. As the figures are subject to constant change, some of them are estimates.



Do both parts get their expectations fulfilled? The answer, according to data collected by research and also reflected in the professional press, is generally assertive. However, not without reservations and contradictions.

An incubation time for profit making takes usually 1–3 years (dependent on the necessity to build and equip business facilities), shorter in the service sector, longer in the manufacturing sector.

The host countries provide for that reason 2–5 years of "tax holidays" (they refrain from tax collection for that time). Poland and Hungary offer extended tax holidays for joint ventures in selected industrial branches.

The driving force behind joint ventures is the expected return on capital. That is a most unsure and rarely disclosed indicator. The research established an average for successful joint ventures around 30–50%.[13]

It seems to be excessively high and is subject to many controversions.

There are some reasons for a high remuneration of well operating joint ventures: The general environment is not yet competitive. First joint venture pick up selected opportunities.

The partners in the host countries usually do not negotiate vigorously. They learn to evaluate the assets of their companies, and compete for markets and profits.

Labor in Eastern countries is cheap. A worker gets a fraction of the payment he would get in the Western countries, from about 5% (for instance in Poland) up to 20–30% (in Hungary and Czechoslovakia).[14]

Also the prices for raw materials, fuels and energy, subcontracts are comparatively lower (if counted over current exchange rates).[15] And, additionally, the environment prohibitions are not yet as severe as somewhere else.

Western investor object that the advantages offered by the host of the countries are not that attractive, and identify following drawbacks:

- labor is relatively cheap, but it is not disciplined and neglects economic requirements,
- managers and engineers are well educated, however they are not used to take responsibilities and make economically sound decisions ("they do not carry a calculator in their heads"),
- the material supply, subcontracts and transport are not coping with world standards and may prove to be not reliable (as to volume, quality and schedule),
- there is a lag in the business infrastructure (flexible financing, business consulting, telecommunication and many others).

The Eastern partners complain, too. They object against:

- fast profit sweeps off the partners,
- contribution in kind, not on hard currency,
- lags in technology ("five years old" at least),
- long time dependence on know-how, materials and/or parts supplied by partner,

[13] Resulting from a Czech and Soviet study of a sample of operating joint ventures and also from figures published by the Financial Times. The highest figure presented publicly, so far, was 200% (a Hungarian case in the press industry).

[14] As a matter of fact, the reproductive expenses of labor are almost double that amount (in Czechoslovakia and the GDR), or at least by 1/3 higher,however, the other part is covered by the redistribution of the GDP (subsidies for basic food, housing, communal transport, family and health care, education, culture, etc.).

[15] The last time therefore, many joint ventures are aimed at mining, reprocessing of materials and fuel (including industrial waste).

- gradually disclosed requirements for follow up joint ventures.

We are discussing joint ventures in a still primary shape. In no country the contribution of joint ventures exceeds 0,5% of the GDP.

Only after a time, the potentials of joint ventures might be grasped in a more transparent way.

10 Technology and management transfer

Adoption of Western technology and management skills figures among priorities of East–West cooperative business. Making level in technology and management grew into a substantial subject of international interest in the 1980s.[16]

New impetus for technology transfer emerge from the amended legal promotion in Eastern countries. Unfortunately, it cannot be confirmed that the paramount changes in joint venture extension involved an expected technology and management transfer.

Less than 15% of the authorized joint ventures are aimed at principal changes in technology and/or management skills. Cooperative trade with high technology is rare and as good as not existent.

The biggest share of joint ventures associated with sizable technology transfer is significant for the CSFR and the GDR.

Western firms are reluctant in transferring advanced technology as they are afraid of future competitors. But in some cases, joint creative endeavor and shared capital made it possible to launch original technologies.

For instance the Danish-Czech joint venture Tessek—biomedical devices and methods—was capable to develop in a short time advanced and patent protected diagnostical methods and instruments. Another Italian-Soviet joint venture between Snamprogetti s.p.a. and the Soviet Ministry of Chemical Industry (including its subordinated research institute) led to a new performance and environmentally friendly refining procedures. In both cases research development or experimental bodies were directly involved.[17]

Generally said, joint ventures with a long range program would provide a more favorable basis for advanced technology transfer. In particular, if the partners could combine some achievements in research and technology.

It is mainly the present inclination to joint ventures in the traditional service sector with a fast profit prospect, which is responsible for the rather low contribution of joint ventures to advanced technology proliferation.

Management transfer is best promoted, when the management of joint firms consist of managers from East and West. This is true of several Polish and Hungarian firms, otherwise an exception elsewhere.

For instance, the Sancella Hungary, a Swedish-Hungarian joint venture in the hygienic tissues business, adopted the whole Swedish management system, computer network and English as a "company language".[18]

In the late 1980s and early 1990s there are networks of international advanced management training centers to be established throughout Eastern Europe. International business communities offer vacancies for prospective managers to be employed and acquire managerial experience.

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[16] Jirásek, J. - Becker, R.: Technology transfer, basic knowledge and reflections, Laxenburg-Vienna. IIASA International Council for New Initiatives in East–West Co-operation 1990.

[17] 18 Ibid., pp.

[18] Ibid., p.

11 Three pilot studies (facts and figures)

The growth of joint ventures was in particular pronounced in three countries, in the Soviet Union, Poland and Hungary. Their cumulative weight represents some 96% of the total joint ventures registration, so far. They supply at the same time a welcome material for structural analysis of the joint ventures pattern in the CMEA countries. These three countries introduced a statistical follow-up of authorized joint ventures by number, capital, industry and partner's nationality.[19]

11.1 The Soviet pilot study

Joint ventures ("smyeshanniye predpriyatiya") in the Soviet Union represent 40–45% of the CMEA countries total (by number and also by vested capital, as of April 1, 1990).

With its vast natural and human resources and prospective market potential, the Soviet Union attracts most attention of Western capital owners. It is also in the Soviet Union, where the largest Western capital commitment is to be expected.[20]

Soviet legislation is not the most liberal. Joint ventures are still (with possible exceptions) admitted up to 49% of capital share and the repatriation of profits is dependent on the hard currency exports. The profits in foreign currency are subject to 20% tax. Notwithstanding, ventures growth displays a surprising trend: see Figure 5.

Capital formation of joint venutes was at the beginning sluggish, therefore measures were taken in order to stimulate foreign engagement. Still, the share of foreign capital hardly exceeds 40%. See Table 11.1. According to the capitalization, the joint ventures might be split into several categories, for instance:

Span in mio SUR	Number of cases
- less than 1	502
- 1–5	244
- 5–10	64
- over 10	67

A blend of large, middle size and small joint businesses could solve a wide variety of economic problems.[21] Soviet joint ventures by sectors and industries display a big share of services yielding only to the Hungarian share. As it is usual in those countries, research services are of preferred concern. 31% of the service sector represent research, engineering and consulting services, and 13% computer software making, 17% come to hotel, tourist and trade services in seashore resorts urban centers and memorial places. Those are ventures with rather modest capital formation and expected fast foreign currency incomes. See Table 2 and Table 3.

In the production sector, manufacturing is leading by number as by capital. See Table 4.

Not directly can be derived that related to advanced machine design joint ventures take an unproportionally small share of some 4%.[22] (Compared with Czechoslovakia's 60%.[23])

Foreign partners are widely distributed, European ones accounting to by far the majority: See Table 5.

[19]East–West Joint Ventures News, Geneva, ECE 1989-1990, issue 1-4.

[20]The first among them, a 10 bill $ deal, proposed by an American consortium, failed. There are some of the 3–5 bill $ size in the negotiations. Presently, the largest is the Fiat's, Italian automotive group, 7 bill $ bid to modernize the Soviet car industry.

[21]Faminski, I.P.: National Priorities and Market Opportunities of Joint Venture Activities in the USSR, in: Razvigorova, E. (ed.): Executive Summary of the Seminar "Promises and Problems of East–West Joint Ventures", Golden Sands (Varna), Laxenburg - IIASA 1989, p.40.

[22]Ibid. (with own supplements).

[23]Becvar, O.: at the same seminar in the discussion; his facts were supported by the analysis of Czechoslovakia joint ventures of that time.

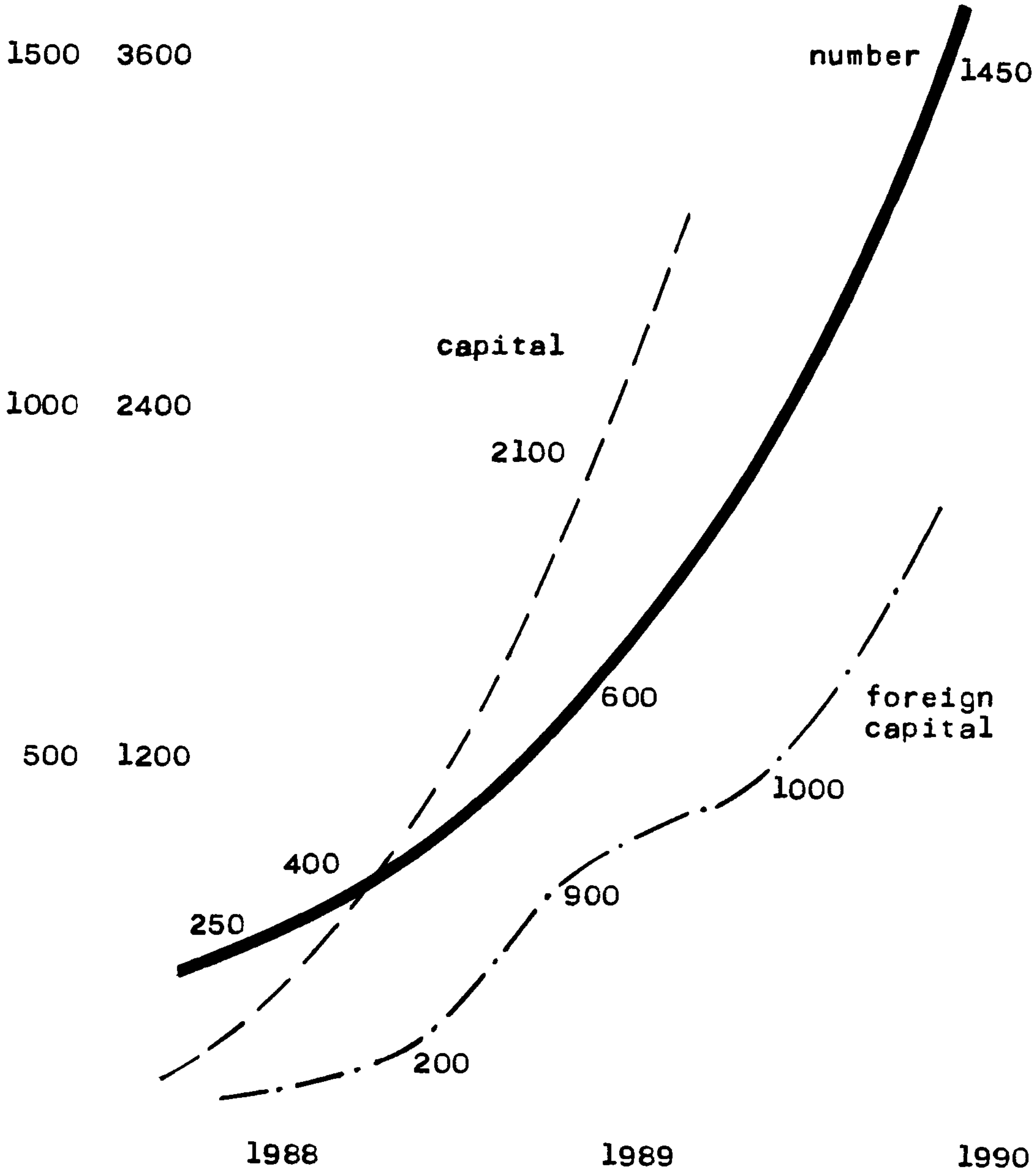

Figure 5: Soviet Joint ventures by number and capital

Source: ECE and IIASA joint venture data base

Table 5: Soviet Joint Ventures by capital (as of 1988-1989)

Capitalization of Soviet joint ventures

	May 1987 October 1987	October 1987 March 1988	March 1988 October 1988	October 1988 March 1989	March 1989 October 1989	October 1989 March 1990
Number (of registered cases)	8.0	28.0	69.0	313.0	511.0	521.0
Statutory capital in mio SUR	65.3	162.1	277.2	816.1	1133.9	
Of which foreign capital in %	35.5	35.5	39.3	41.0	43.7	
Average size of the capital invested in mio SUR	8.2	5.8	4.0	2.6	2.2	

Source: ECE and IIASA joint venture data bases

Table 2: Soviet joint ventures by sector as of 1988–1989

Sector	**by number**	**by capital**
Primary	2.3	2.8
Secondary	52.1	63.6
Tertiary	45.6	33.6

Source: ECE joint ventures data base

Table 3: The industrial breakdown of Soviet joint ventures as of 1988–1989

Industry	**Number of cases**	**capital local**	**capital foreign**	**capital/case (mio SUR)**
Agriculture and foresting	14	14.6	3.9	1.0
Fishing	7	48.6	23.9	3.4
Mining and quarrying	1	0.3	0.1	0.3
Manufacturing	453	1549.8	610.7	3.4
Construction	31	77.7	35.2	2.5
Ecotechnology	7	9.0	4.5	1.3
Wholesale and retail trade	43	177.8	95.6	4.1
Hotels and restaurants	65	218.1	88.1	2.5

ad ecotechnology: sewage, water purification, waste recycling, etc.

Source: ECE joint ventures data base

Table 4: Branch breakdown of Soviet joint ventures in manufacture.

Industry	**number of cases**	**capital in mio SUR**
Chemical	39	354
of which basic	7	96
rubber and plastics	14	119
Electrical engineering	89	196
of which office equipment	70	124
Mechanical engineering	48	172
of which machine tools	8	72
Light (textiles, shoes, glass, etc.)	42	109
Food	42	82
Wood processing	20	79
Basic metals	3	25
Motor vehicles and transport	10	16
Ecotechnology	4	11

Source: ECE joint ventures data base

Table 5: Soviet joint ventures partners by countries

Soviet joint ventures by foreign partners in %

Regions and countries	by number	by capital
CMEA	9.5	11.2
EC	36.2	38.3
EFTA	26.6.	19.0
USA	9.3	11.8
Japan	1.9	2.1
Developing countries	5.3	2.3
Others	11.2	15.3

ad others: Multilateral agreements and ventures with China, Yugoslavia, Canada and Australia.

Legal provision adopted since 1987, entail a transformation of the state ownership, once domination more than 90% of the production, into a multi-structural property setting, including joint ventures, joint-stock property with foreign participation, and foreign affiliations.[24]

11.2 The Polish pilot study

Poland ranks among countries with the longest tradition of cooperative East–West business. However, as in other CMEA countries, it is in the last years when the collaborative business soared at a rapid pace.

The graph reveals a decrease in capitalization. In particular, an untamed inflation in 1988–1989 deterred from investing. On the other side, the large Polish market retained a great deal of its attractions. See Figure 6.

Because of currency volatility, some joint ventures were established with a marvelous invention. For instance the Furnel case (acronym for Polish furniture and English electronics) was able to circumvent the financial obstacle by a barter agreement. That was the way for many investors who did not want to miss their presence in the Polish market.[25]

A specific cooperative arrangement are the so-called "Polonia" trade agreements. The investors are Polish emigrants who establish small and middle size ventures. Most "Polonia" capital was invested into wearing apparel, food, wood and other non metallic small products, etc.

Preference of small joint ventures may be supported by Polish data: The lower half of the joint ventures (under 75 mio PLZ of capital invested) enjoys a foreign participation of 70% in the average, while the upper half of them lies without exception under 50% of foreign capital share.

Stratification of joint ventures according to capital amount

statutory capital span	share in %
less than 50 mio PLZ	26.6
50 - 100 mio PLZ	65.0
more than 100 PLZ	8.4

Poland is leading by the number of fully owned foreign subsidiaries. Such a capital arrangement is possible in Hungary, Czechoslovakia, Bulgaria, too, but it remains a rare, exceptional case. In Poland there were 63 fully foreign owned firms (as of November 1989). They account for 12% of the capital invested, so far.

Economic sectors were represented in the joint ventures total as follows: See Table 6.

A more detailed array by industries confirms Poland's commitment to manufacturing joint ventures: See Table 7.

Other industries are less involved. For instance, mining and quarrying (1 case at 75 mio PLZ), financial services (2/77.9), leasing and renting (3/323.5), computer services (6/313.5), R&D (1/32.4), education (1/104.8), health and social work (3/305.6), etc.

Joint venture partners in Poland are predominately European. However, the full list of partners cover the whole globe. See Table 8.

First 5 countries (FRG, Sweden, United Kingdom, Austria, USA) represent 56.6% of the vested capital.

Poland was first to liberalize the foreign capital ventures. After the stabilization of the currency (which succeeded in the first quarter of 1990 at a considerable cost to the standard of living), this country will lure further foreign capital involvement.

[24] "We have firmly taken the course of encouraging that form", the Soviet Prime-Minister Mr. N. Ryzhkov underlined in his speech on the draft of the Property Law, recently.

[25] Maciejko, R.: Joint Ventures in Poland, Laxenburg, IIASA 1989.

Figure 6: Polish joint ventures by number and capital.

Source: ECE and IIASA joint ventures data base

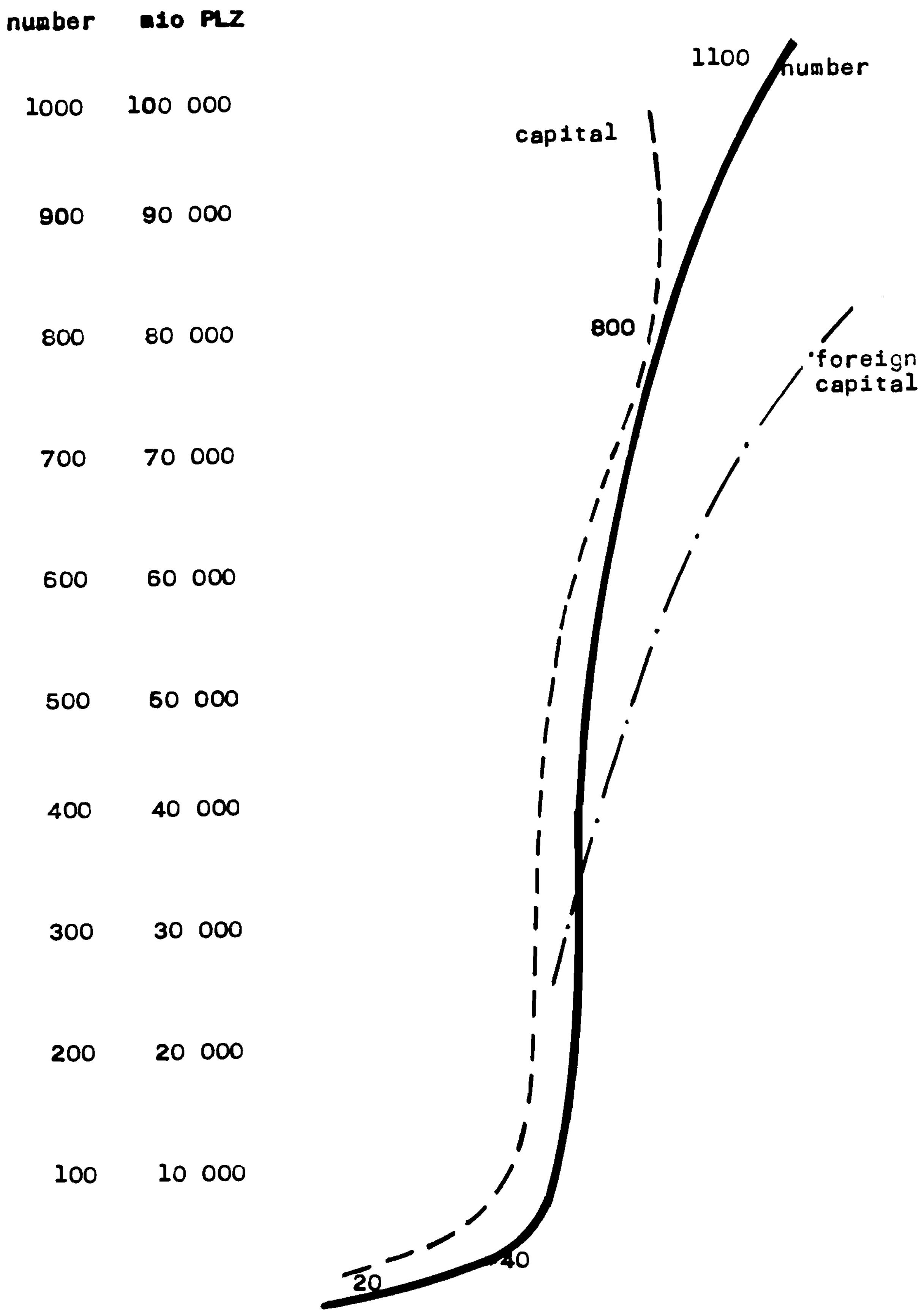

Table 6: Polish joint ventures by economic sector.

sector of the economy	**share in %**	
	by number	**by capital**
Primary		
Agriculture, fishing, hunting	3.3	11.2
Secondary	*77.3*	*71.1*
Manufacturing	72.6	68.9
Construction	4.7	2.2
Tertiary	*18.1*	*17.3*
Transport and communication	2.5	6.1
Trade and business services	8.4	3.9
Hotels and restaurants	4.1	4.3
Health, culture, sports	3.1	3.0
Others	4.3	0.4

Source: ECE joint ventures data base

Table 7: Polish joint ventures by industry.

Industry	**number**	**capital in mio PLZ**
Agriculture	14	4027.4
Fishing	3	17669.0
Manufacturing	374	91275.9
Construction	24	2625.7
Trade and business services	19	1600.8
Hotels and restaurant	21	4233.7
Transport and communication	13	6868.4
Culture and sports	13	2215.5

Source: ECE joint ventures data base

Table 8: Polish joint ventures by foreign partners

regions and countries	**share in %**	
	by number	**by capital**
EC	59.8	44.0
EFTA	21.2	22.6
other Western Europe	0.8	0.3
CMEA	2.1	1.8
Europe	81.8	66.9
USA	5.6	7.6
Developing countries	2.1	3.5
others	8.4	20.5

ad others: Multi-party arrangements and Japan, Canada, Australia, Israel, Jugoslavia, Turkey, South Asian countries.

Table 9: Hungarian joint ventures by economic sector.

Economic sector	Shares of operating joint ventures in % (by number)
Primary	*??*
Secondary	*38*
of which manufacturing	35
Tertiary	*59*
of which finances	30
hotels and restaurants	18
trade	4
health care	4

Source: ECE joint ventures data base (as of November 1989)

11.3 The Hungarian pilot study

In Hungary, the joint venture set-up began in the early 1970s. The Hungarian government is amending its legislation into a liberal shape. Since March 1990 some restrictions were imposed in order to tighten governmental control over the state ownership and prohibit any spontaneous "selling-out" of the Hungarian property.

The repatriation of profits is the easiest in Hungary compared to any place in Eastern Europe. Profits in foreign and domestic currencies (after taxation) are drawn at the valid exchange rate and transferred abroad.

The general economic environment for joint ventures in Hungary is most close to Western business habits, which resulted into the highest intensity of cooperative business among CMEA countries.

There is one depressive factor involved: the foreign debt is the highest in Eastern Europe in per head terms. Fortunately, the Hungarian economy proved to be resilient and capable to control the balance of payment. See Figure 7.

Hungarian joint venture breakdown by sectors shows a dominating role of the service orientation: See Table 9.

The basic economic structure impacts the joint venture priorities. Hungary is most efficient in the CMEA countries in food production and processing. Among its leading industries, there is electrotechnical engineering and industrial chemistry as a national tradition. For the last time, Hungary is undertaking comprehensive modernization of its communication network. Such facts are reverbarated in the industrial composition of joint ventures: See Table 10.

when investors from the USA and Japan have started negotiations in Hungary. See Table 11.

First 5 countries (Austria, FRG, Switzerland, USA and Sweden) account for 70.7% of the joint ventures total.

12 Convertibility and Countertrade Practices

One of the greatest impediments of East–West joint venture expansion are limitation in convertibility of domestic currencies. This renders it difficult to generate profits and cash with international utility value. Some Western partners are then left with assets and incomes that are of little importance for reinvestment in the West.

Only Poland and Hungary allow to convert domestically produced money into hard currency and get it repatriated without outer limitations.[26]

[26] At an elevated exchange rate: 1 US $ equals 9 500 zloties or 65 forint, respectively, when an average monthly

Figure 7: Hungarian joint ventures by number and capital

Source: ECE and IIASA joint venture data base

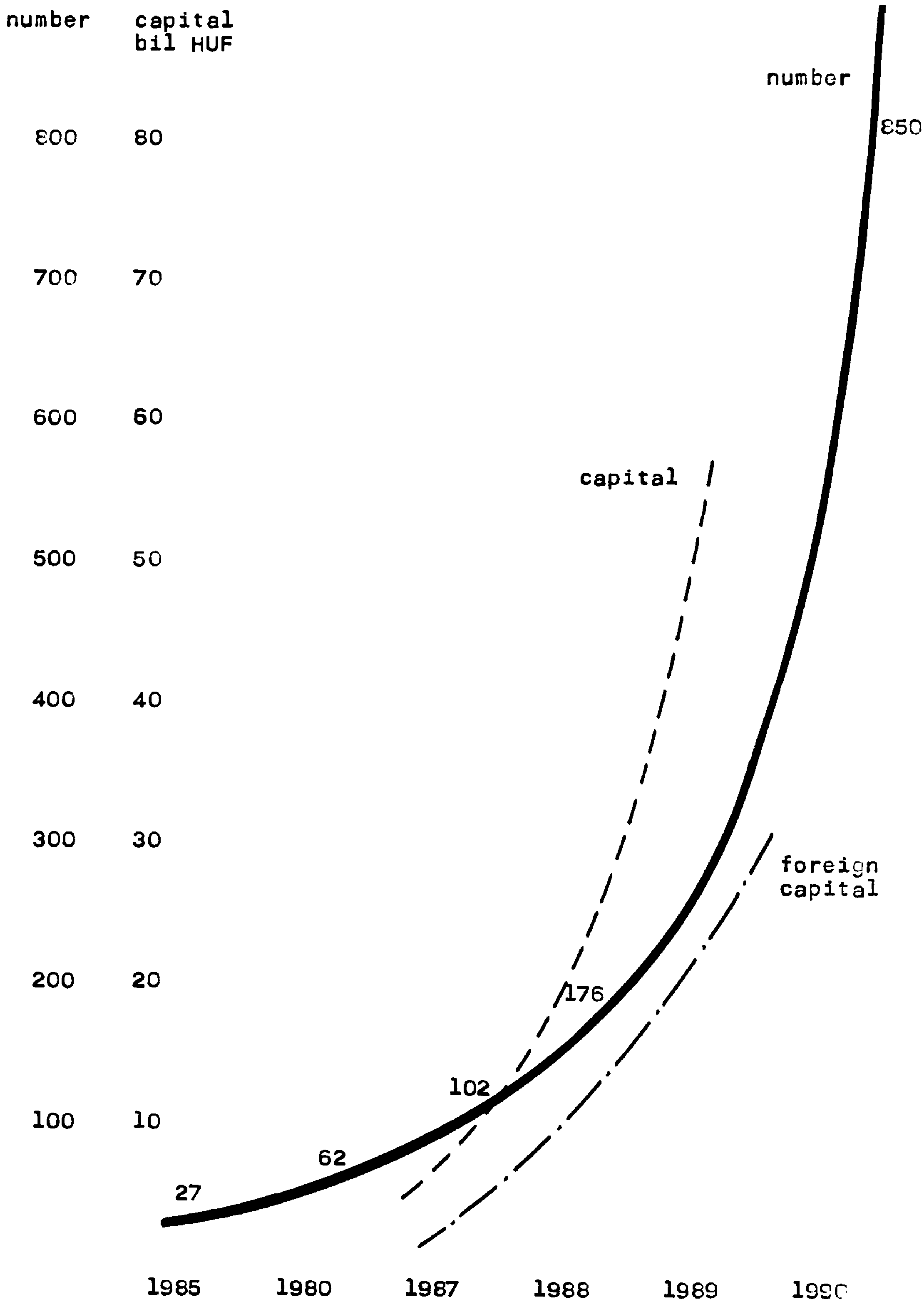

Table 10: Hungarian joint venture by industry.

Industry and branch	joint ventures by number	joint ventures by capital in mio HUF
Mechanical and electrotechnical engineering	*30*	*3816.5*
of which communication equipment	5	1294.4
computers and office equipment	3	1006.5
precision instruments	3	500.7
Food and food processing	*10*	*1464.5*
Industrial chemistry	*18*	*1166.4*
of which chemicals	12	946.2
rubber and plastics	3	82.7
paper	3	119.5
Motor vehicles and transport equipment	*5*	*202.4*
Recycling	*3*	*219.2*

Source: ECE joint ventures data base (as of November 1989)

Table 11: Hungarian joint ventures by partner's origin by country.

Region or country	Share in % (by number)
EC	35
other Western Europe	47
CMEA	2
USA	6
Japan	1
Developing countries	3
Others	6

Source: ECE joint ventures data base (as of November 1989)

Table 12: Compensation ratio in cooperative negotiations.

Country	1976	1980
Bulgaria	40–50%	40–60%
Czechoslovakia	30%	15–30%
Poland	20–30%	20–50%
Hungary		15–40%
Romania	30–70%	20–80%
USSR	5–10%	5–15%

ad Romania: Higher (up to 100%) for imports beyond the plan and of low priority
ad USSR: higher for import of a large volume (usually over 1 mio Rb).
Source: East–West trade, recent development in Countertrade, Paris, OECD 1981, table 4.

Other countries allow similar transactions only after export operations into countries with hard currency have been executed.

Prospects of convertibility in different countries are interpreted in a different way. Between now in Poland and Hungary, and some 15 years ahead in the Soviet Union.[27]

Convertibility has been achieved in Poland and Hungary at a rather high price of standard of living constraints and increase of foreign debt. Devaluation of the domestic currency, decrease of its buying power, loss of job security, removal of food, rent, local transport, medical, educational subsidies might render the present convertibility sensitive to resistance and amendments.

While similar barriers are rather high, the rewards might turn to be opulent. Companies are to take a long view before they plunge.

Many have decided to establish their presence in the dimensional East European market, others are deliberating to do so in the foreseeable future.

While convertibility option are sill dim, there is a welcome contingency to secede to a barter arrangement. Counterpurchase practices operate like a counterweighing power against currency limitations.

The usual practice is that the Western exporter faced with a request for compensation in kind, first of all wants to avoid any counterpurchase and get the request withdrawn. If not feasible, he tries to get a marketable product and compensate for the complexity and delay.

It is this ratio in particular, that attracts most attention in critical assessment. Practically it is almost impossible to fix any rule, but as a rule, following ration are suggested: See Table 12.

According to Western experts, lowest bids are required by Czechoslovakia and the Soviet Union. Both countries have a reputation of rather stubborn negotiators. The start with a reasonably low ration, but then are reluctant to further concessions.

In some countries and times, there were commodities which were broadly used for trade compensation. In the Soviet Union, this relates to fuel and raw material, in Poland to coal and several kind of foodstuff, in Czechoslovakia to steel and machinery, etc. Some East European countries introduced not only compensation in products but also in services. For instance, rail,

pay may lie somewhere around 70 000 zloties or 5 000 forint.

[27]It depends, indeed, on what is to be understood under the term of convertibility. An international expert defined convertibility as a "use without restrictions and par value unlimited exchange for any other currency." West European countries depleted after the WWII, needed some 15 years to declare their currencies convertible. Total unrestricted whatsoever, convertibility can be applied to Luxemburgian currency only. Androsh, H.: Convertibility, Issues and East–West Payment Options in: Razvigorova, E.(ed.): Executive Summary of the Seminar "Promises and Problems of East–West Joint Ventures," Golden Sands - Laxenburg, IIASA 1989.

road or flight transport, insurance, divers manpower services, etc.

In the time of administrative regulations, several Western firms were from time to time disappointed by unexpected complexity of the negotiation. Among others, the list of product recommended for compensation was out-of-date and was withdrawn after first steps of the deal, the technical parameters, quality degree, price and delivery schedules were also not always reliable and induced the necessity to check more in detail.[28]

After 1989, countertrade practices were alleviated, but hard currency constraints render their continuation indispensable. New companies for trading arrangements come into existence, in order to facilitate the growing volume of imports. Their potential and credibility are being proved in the still voluminous practice.

[28] In all East European countries, there is a network of authorized testing laboratories. If a Western firm needs and independent assessment of the product/service proposed, it might ask for a test of quality. The testing laboratories issue a certificate of the product in compliance with world standards.